

The Productivity **Predicament**

How to maximize
employee productivity
without sacrificing empathy



The Productivity Predicament

In October 2022, a *Washington Post* headline ominously declared: “U.S. workers have gotten way less productive. No one is sure why.” The subhead summed up the significance of what’s happening: “Bosses and economists are troubled by the worst drop in U.S. worker output since 1947” (Telford, 2022).

From the fourth quarter of 2019 to the first quarter of 2023, labor productivity in the United States rose at a 1.1% annual rate, an historically low rate of productivity growth other than the six-quarter period from the first quarter of 1980 to the third quarter of 1981 (1.0%) (BLS, 2023).

This apparent slowdown is not confined to the United States. For example, productivity in Canada diminished by 9% between 2000 and 2022, falling to roughly 72% of that of the U.S. In the first quarter (Jan. – Mar.) of 2023, output per hour worked in the UK suggests the weakest annual growth for both countries since 2013 (excluding the COVID-19 pandemic period).

And Australia’s Reserve Bank governor Philip Lowe said the country has experienced its “biggest fall in labor productivity on record,” which he admitted is “not well understood” (Kehoe, 2023).

And this is what’s troubling corporate leaders: they sense that productivity across their organizations—no matter how it’s measured across thousands of different jobs—is waning. Theories on the causes are plentiful:

- Forced return-to-office policies are making workers less productive
- Employees are burnt out and “quiet quitting”
- Constant job churn has increased ramp-up time for new hires
- Retirement rates have increased and there are not enough replacement workers
- Worry about inflation and interest rate hikes impact productivity
- It’s cyclical—ups and downs in productivity are normal

FOREWORD



Kevin Oakes

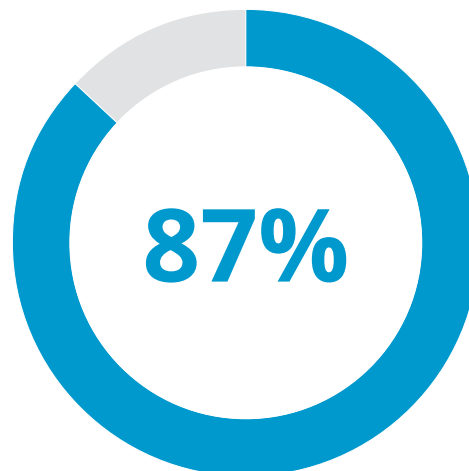
CEO, i4cp
Author of *Culture Renovation*®



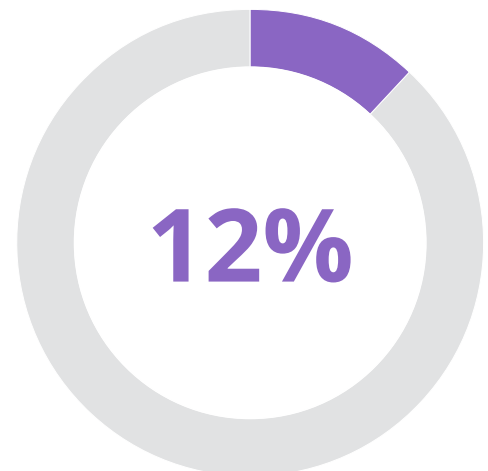
Perception of productivity—how productive a person, department, division, or organization is can be quite subjective. An example of this was uncovered by i4cp member organization Microsoft, in its work trend report, “Hybrid Work is Just Work. Are We Doing It Wrong?” (2022).

When Microsoft asked employees about their own productivity *and* in turn asked leaders if they believed their teams were productive, they received wildly different answers:

Employees
report they are
productive at work



Leaders
say they have full confidence
their team is productive



Microsoft surveyed employees about their levels of productivity on a typical day. Most agreed with the statement: “I feel productive when I work.”

But among those surveyed in *leadership roles*, only 12% expressed confidence in their teams’ productivity in the context of changes brought about by the shift to hybrid work.

It's easy to understand why productivity is top of mind for members of the Institute for Corporate Productivity (i4cp), and an intriguing one to study. In the first quarter of 2023, i4cp researchers set out to demystify this topic, surveying hundreds of executives from organizations worldwide representing an array of industries.

Starting with analysis of data from our survey of 650 senior leaders from 52 countries, we found that there is a *productivity predicament*—leaders are grappling with how to focus on results without abandoning empathy. We also identified clear commonalities among organizations suffering from poor productivity and strategies for improving it.

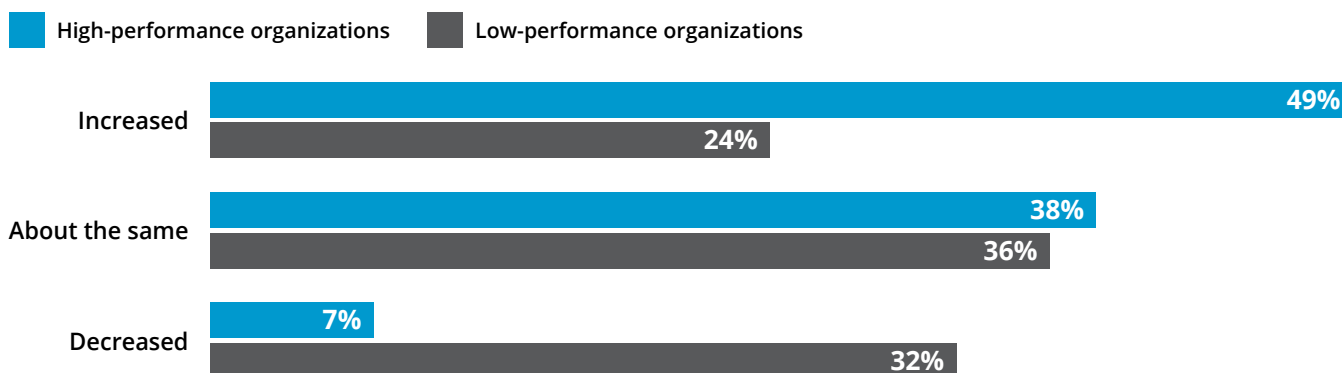
As with the subjective nature of how productivity can be perceived, there are widely differing opinions on the subject. For example, our research found that views on productivity fluctuate depending on how well an organization is performing financially and against competitors.

As with all of i4cp's major studies, we analyzed the survey data using our **Market Performance Index®**, which enables us to distinguish differences between high- and low-performance organizations based on revenue growth, profitability, market share, and customer satisfaction over the last five years.

Market Performance Index (MPI®) Definition: i4cp defines high-performance organizations based on self-reported multi-year performance in revenue growth, profitability, market share, and customer satisfaction.

Responses to the survey question: “What has happened to productivity in your organization since March 2022?” clearly correlated to market performance.

Productivity Changes Since March 2022



Data represents survey responses from organizations employing >100 people. Source: *The Productivity Predicament (2023)*, Institute for Corporate Productivity (i4cp).

Unsurprisingly, respondents from lower-performing companies more frequently reported decreased productivity. Our study found significant differences between high-performance organizations and lower performers across several related areas. In the pages that follow, we'll paint a picture of productivity as it stands today, with research-backed ideas of how organizations can improve it and ultimately solve the *productivity predicament*.

INTRODUCTION

Productivity and the *Where* of Work

A great deal of emotional capital has been spent debating return-to-office policies and the merits of flexibility and remote work.

None of us could've predicted in 2019 how controversial the issue of where people work would become just a few years later.

A great deal of emotional capital has been spent debating return-to-office policies and the merits of flexibility and remote work. This has created angst for some very well-known organizations worldwide.






For example:

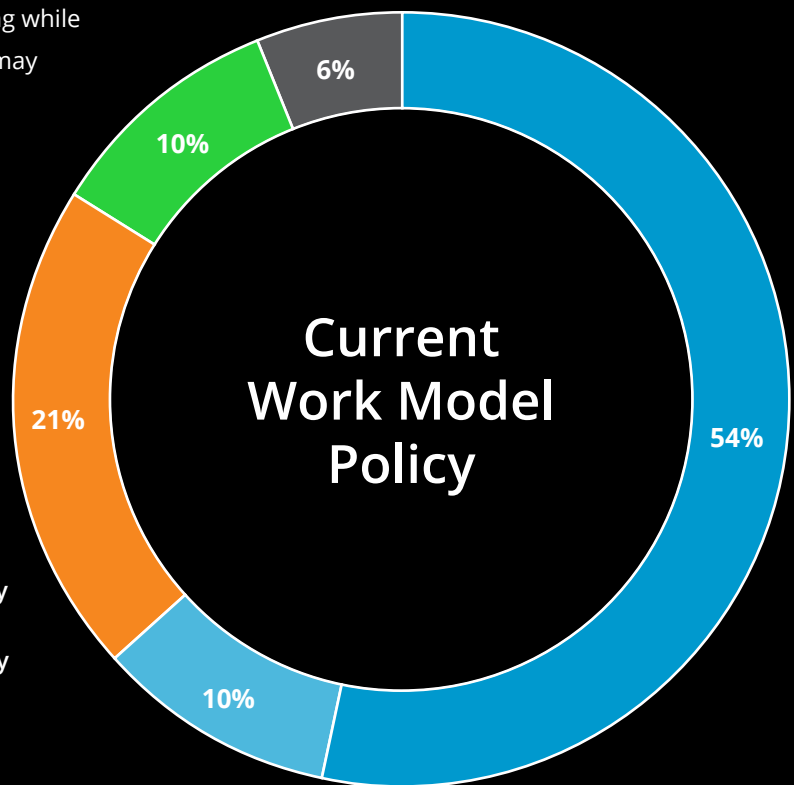
- Approximately 2,000 Amazon employees walked off the job in May 2023 to protest the company's return-to-office mandate and other issues, including a "lack of trust in leadership" (Palmer, 2023).
- Several months prior, Apple employees created a petition to protest the company's three-day-a-week in office policy and formally asked for more flexible working arrangements (Lukpat, 2022).
- In mid-2023, the new CEO of Farmers Group changed course on existing remote work policy, requiring the majority of employees to be in the office three days a week—a decision that sparked worker outrage widely documented by the press (Morris, 2023).
- 86% of German businesses have mandated various office returns, which has left 34% of employers struggling to hire as a result. These recruitment difficulties are exacerbated by employee turnover rates, with 25% of workers revealing that they have left their jobs in the last two years due to an unsustainable work-life balance. A further 25% moved due to disliking the workplace culture (Nachrichtendienst, 2023).

Increasingly, organizations worldwide are rolling out policies that require their employees to be in the office certain days of the week (if not every day, then most commonly Tuesday through Thursday) or a certain amount of time per week.



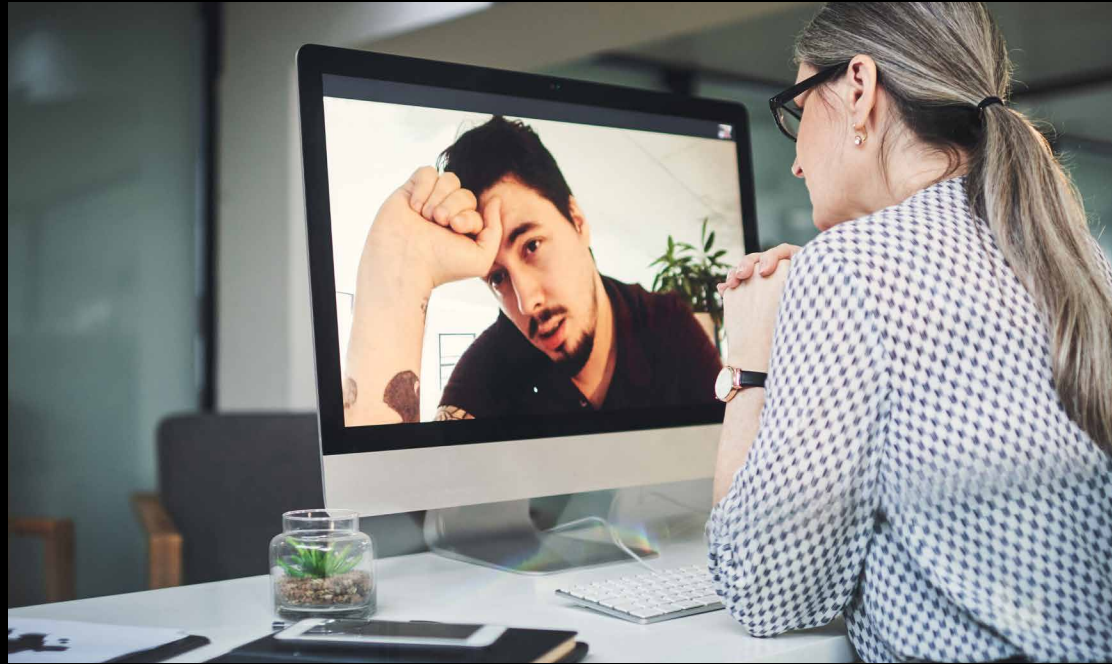
A survey on tactics to improve productivity conducted in May 2023 found that 64% of the nearly 400 respondents reported that their organizations have policies specific to where people work, while only 21% said they have flexible policies that allow employees to decide where they work. Flexible work arrangements seem to be decreasing while return-to-office policies are gaining ground. This may be a mistake however, as, particularly in the U.S., workers seem to be pushing back.

-  **Hybrid**—Employees are required to be in the office/onsite certain days of the week or a certain amount of time per week
-  **Onsite fulltime**—all employees are required to be in the office/onsite during working hours
-  **Flexible**—Employees decide where they work
-  **Fully remote**—All employees work remotely
-  **We do not have a defined work model policy**



Source: *Tactics That Improve Workforce Productivity Pulse Survey* (2023), Institute for Corporate Productivity (i4cp).

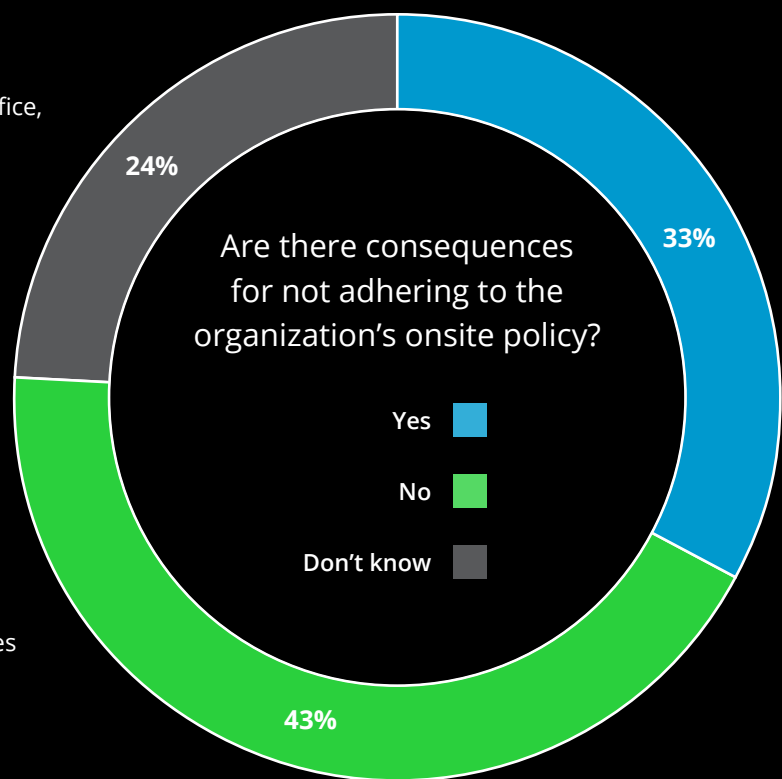
A significant portion of survey respondents reported that there have yet to be consequences for employees not adhering to onsite policies.



Consequences?

Despite mandates that employees return to the office, a significant portion of respondents reported that there have yet to be consequences for not adhering to policy. In the same May 2023 study, two-thirds of respondents (67%) said there are no consequences or that they don't know, with one-third reporting that their organizations are enforcing such policies.

When asked to describe what actions are being taken, answers ranged from manager discussions with impact on bonuses or merit increases, to formal corrective action up to and including termination. It is expected that companies will increasingly add in-office measurements to performance reviews.



Source: *Tactics That Improve Workforce Productivity Pulse Survey (2023)*, Institute for Corporate Productivity (i4cp).

CEOs and other senior executives have cited common reasons for forcing employees to return to the office. Nearly half (47%) of respondents said current policies were designed to improve one of the following:

1. **Collaboration**
2. **Culture**
3. **Productivity**

While these may sound like reasonable explanations, they are not proven out in the data. Analysis found that selection of one of these as the primary reason for the current work model was either very weakly or negatively correlated with both overall performance and productivity.

Even worse—11% of participants reported that their organizations didn't have communication from leadership about the reasons for the current work model. Not having this key communication showed a negative correlation to organizational trust and culture health. Among those who reported that their organizations' preference is to have employees in office rather than work remotely, some believe this has helped overall productivity.

There's no getting around the fact, though, that some employees feel deceived.

As much of the world shifted to remote work in March of 2020, and because this was a new and sudden phenomenon, there was very little communication (or none at all) on location guidelines. Many workers relocated during the pandemic to spots not necessarily close to corporate offices. Further, countless people joined companies as remote workers during the pandemic and have never or rarely visited corporate offices.

As employers began setting, communicating, and enforcing new in-office requirements, the understandable perception among workers is that the terms of their employment are being rewritten, which in turn significantly impacts trust.

Productivity is significantly affected by how much (or how little) trust exists within the culture of an organization. The four key findings this report will expand on are:

1. **Productivity flourishes in environments of trust**
2. **High-performance organizations prioritize both the *what* and *how* of goal achievement**
3. **Empathy and productivity are not mutually exclusive**
4. **AI will significantly impact productivity**

Lack of communication from leadership about the reasons for the current work model showed a negative correlation to organizational trust and culture health.

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KEY FINDING 1

Productivity Flourishes in Environments of Trust

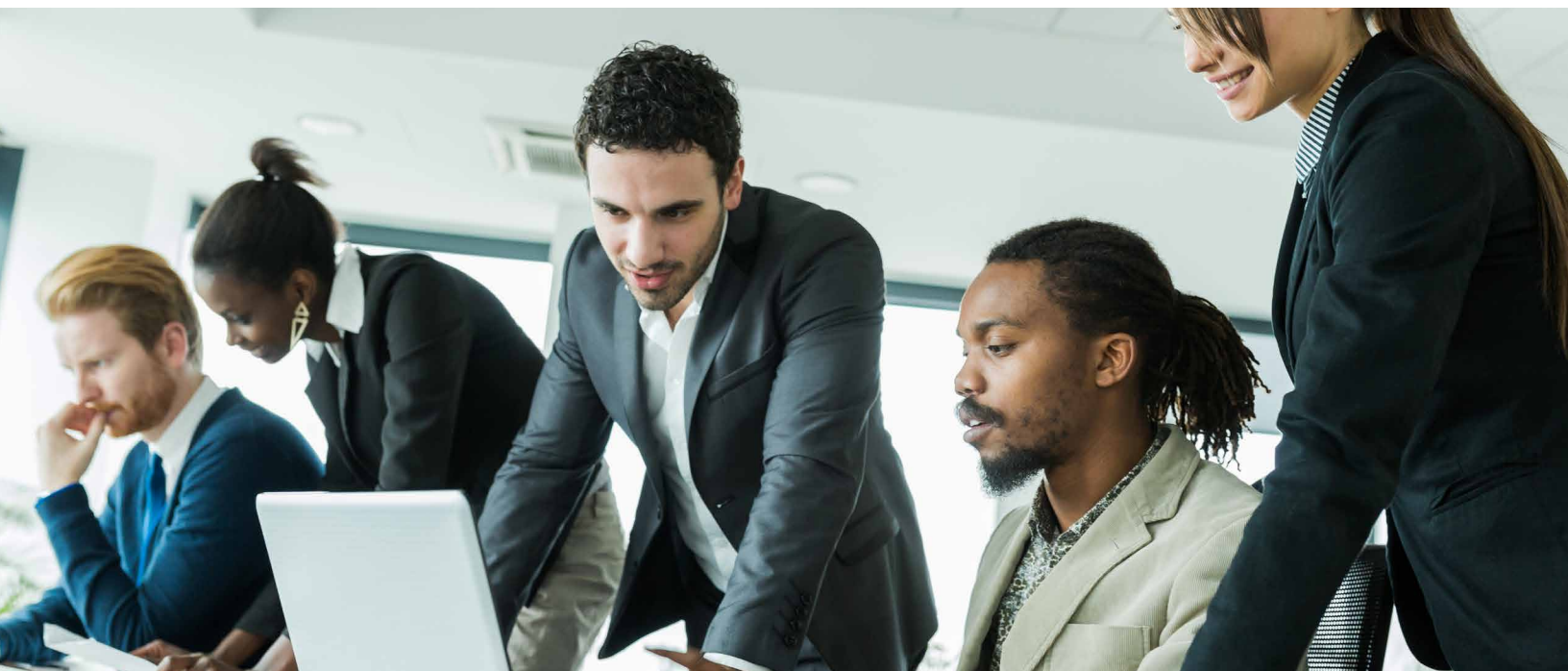
The success of an organization requires a culture of reciprocal trust from top to bottom.

Organizational trust can be fleeting, fickle, messy, and difficult to measure.

But the success of an organization requires a culture of reciprocal trust from top to bottom. **i4cp's Organizational Trust Index®**, which is made up of five elements, makes this clear:

1. **Senior leaders trust employees**
2. **Managers trust their team members**
3. **Managers are trusted by their direct reports**
4. **Employees trust their team members**
5. **The senior leadership team is trusted by employees**

The presence of these five elements explains 18% of participating organizations' increased productivity since the start of the pandemic. But overall, levels of trust are still challenging, especially in low-performance organizations.



Learn more about membership at [i4cp.com](https://www.i4cp.com)

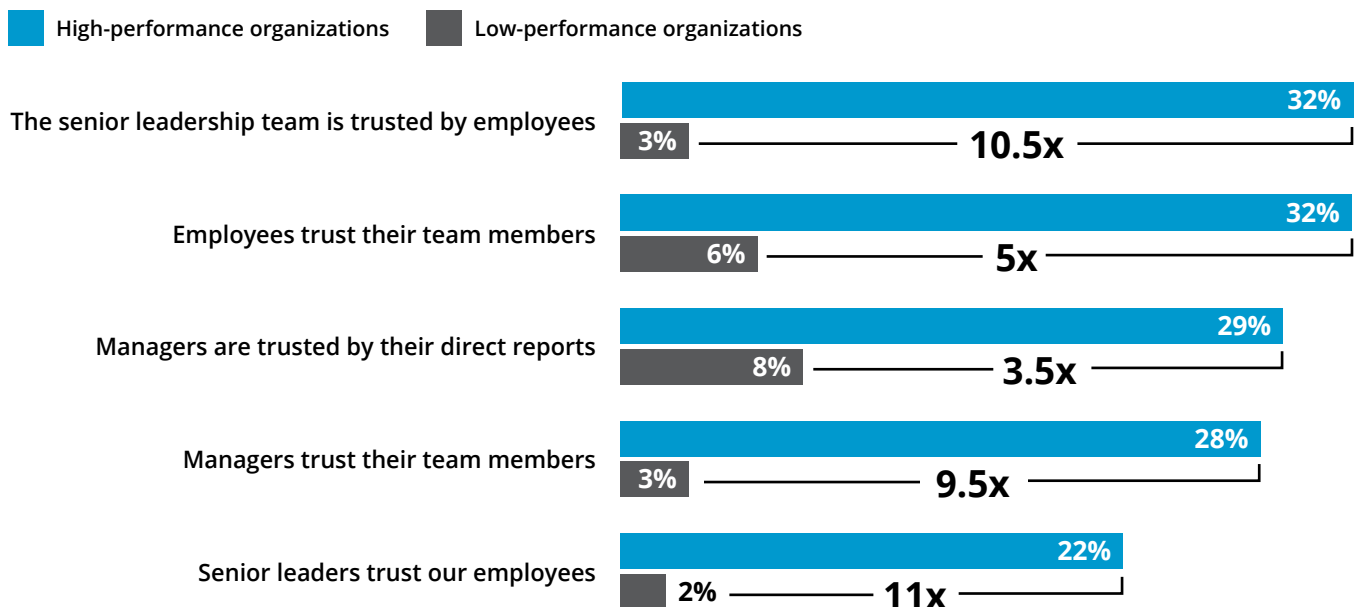


The marked difference in trust between high- and low-performance organizations is rather startling—respondents from high-performance companies strongly agreed with the five trust statements (above) by a factor of **3 to 11x** over those from low-performing companies.

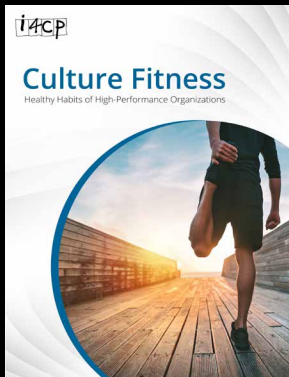
In turn, lack of trust affects workforce productivity; just 2% of respondents from low-performance organizations strongly agreed that their senior leaders trust employees, and 3% said that employees trust senior leaders. Those from high-performance organizations were **11x** more likely to strongly agree that there is trust between these groups.

High-performance organizations are **11x** more likely to have leaders who trust their employees.

High-performance Organizations Engender Greater Trust Between Groups



Data represents those indicating strongly agree from organizations employing >100 people.
Source: *The Productivity Predicament (2023)*, Institute for Corporate Productivity (i4cp).



For more, see the i4cp study
*Culture Fitness: Healthy Habits of
High-Performance Organizations*

The impact of trust on organizational health was also evident in i4cp's study, *Culture Fitness: Healthy Habits of High-Performance Organizations*. Our analysis found that:

- Those who described their organizations' cultures as toxic were **16x** more likely to say "lack of trust in senior leaders" is an issue that needs to be addressed.
- These same respondents were **10x** more likely to report an "unsafe environment for expressing opinions or concerns" as a top issue in their organizations.
- In contrast, those who perceived their organizations to have very healthy cultures overwhelmingly reported that they have leaders who lead by example, are held accountable for employee outcomes, regularly communicate values, and address poor behavior immediately.

It's clear that building more trust in an organization is a learned skill that can be continuously improved upon.

How to Create More Trust

While trust is much easier to lose than to gain, the research illuminated a rather simple way to improve trust: invest in manager development.

The difference in the amount of developmental training that leaders receive varies greatly by organization. In organizations that score highest on the trust index, leaders are:

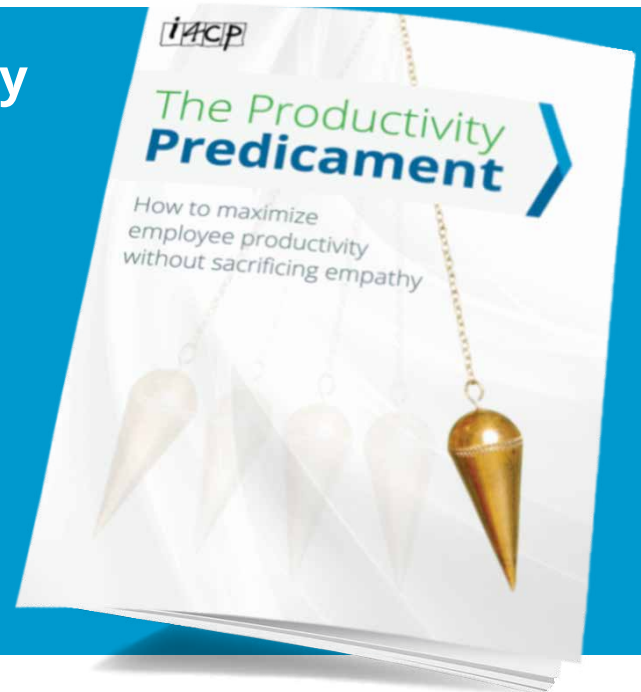
- **5x** more likely to receive a significant amount of training in modeling behaviors that drive healthy cultures (45% vs. 9%) and
- **3x** more likely to receive a significant amount of training on how to create inclusive cultures (45% vs. 14%).
- They are also more likely to receive training in providing developmental feedback, goal setting, and managing to outcomes.

It's clear that building more trust in an organization is a learned skill that can be continuously improved upon. Organizations that provide a substantial amount of training on people-leader capabilities increase overall trust, while leaders in organizations in which trust is low typically have received much less training.

The Productivity Predicament

Full report available exclusively
to i4cp members, featuring:

- In-depth analysis of our three additional study findings, with i4cp member case studies
- 4 recommendations for organizations that will lead to long-term productivity improvement
- Plus, more supporting research from i4cp



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